

The Effect of Family Aspects on Corporate Governance and Firm Performances: Empirical Evidences of the Family Business Companies listed on the Stock Exchange of Thailand and the Market for Alternative Investment

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Received August 05, 2021 & Revise March 10, 2022 & Accepted March 24, 2022

Abstract

The objectives of the present research article were to 1) examine the effect of the family aspects including family ownership concentration, family management, and family control of board on their financial performances of the family business companies listed in the Stock Exchange of Thailand (SET) and the Market for Alternative Investment (MAI); 2) to examine the effect of the family aspects including family ownership concentration, family management, and family control of board on their corporate governance of the family business companies listed in the SET and MAI. 3) to examine the effect of corporate governance on financial performances of the family business companies listed in the SET and the MAI; and 4) to examine indirect effect of the family aspects including family ownership concentration, family management, and family control of board on their financial performances via corporate governance of the family business companies listed in the SET and the MAI. The data was collected from 100 family business companies listed in the SET and in the MAI as population with a period of the study from Jan 1, 2015 to December 31, 2019.

The SEM model fit analysis the research found that all indices analyzed were found to be harmonious therefore significant in the context of the present study. The SEM path analysis

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found significant relationship between Family Control of the Board (FCB) and Firm's Financial Performance (FFP). No significant relationship was found between Family Ownership Concentration (FOC), Family Management (FM), FCB, and Corporate Governance (CG) variables. Corporate Governance doesn't show any mediating effect between family aspects and firm's financial performances. These research insights are useful in understanding how family management through control of board affects a company's performance in Thailand in the present years.

Keywords: Family ownership concentration, Stock Exchange, Market for Alternative Investment, Thailand.

Introduction

In Asia, several literatures reveal that family firms portray a high performance, for example in Taiwan, Australia, Hong Kong, Singapore and mainland China (Ibrahim, 2011). Big names like Li Ka Shing from Hong Kong, Kyuk Ho Shin from South Korea, Ayala Families from the Philippines, and Chirathiwat and Chiravanonth families from Thailand, are well known among the family group companies. Therefore, it is interesting to investigate why these companies outperform others in the field and in the national market.

In addition, the three important contributing factors of family businesses that widely discussed by researchers are family ownership, family management, and family control of board. Firstly, Anderson and Reeb (2003a) find that family ownership and control is positively related with financial performance and it is negatively related to capital expenditures and investments. while others find the opposite (Barth et al., 2005; Westhead & Howorth, 2006). Anderson and Reeb (2003a) found family firms to perform better than nonfamily firms due to combining control and ownership which has key advantages as large shareholders can monitor management.



Family businesses in Thailand have driven the economy of the country for many years. According to a London company with branches in Thailand (EFB, 2021) family businesses accounts for over 80% of Thailand's GDP and one-third of the companies listed in the Stock Exchange of Thailand are family owned. Furthermore, PwC (2018) has found that family-owned businesses in Thailand dominates all business sectors, with cumulated wealth of 30 trillion baht, making Thailand rank on the seventh place in Asia Pacific.

However, in order to understand the concept behind family businesses, the two main theories that have been used to study family firms and their subsequent performances have been (1) agency theory and (2) resource based-view theory (RBV). In agency theory, the underlying concept is the contracts between agents and principals, and because of close relationships between family managers and family members, principal-agent conflict is lowered in family firms which leads to higher performance. In resource-based view or RBV theory, a significant theory when defining the differences between family and non-family firms. RBV takes into account the resources that one company has and its capabilities which could be turned into competitive advantage. Habberson and Williams (1999) suggests that RBV helps establish links between a firm's performance and its internal characteristics and Sirmon and Hitt (2003) argues that family firms tend to leverage resources in different ways than those of non-family firms. Both theories are best support of due to less agency problems and uniqueness of resources found in family businesses to pursue better performances.

As family businesses issues are still on-going topics by both academic and professional researchers, thus it is important to further study of how it is still affecting the firm performance and with such arguments, this research attempts to focus on how family aspects such as family ownership concentrations, family management, and family control of board affect firm's corporate governance and financial performances.

Research Objectives

The present research focusses primarily on four main objectives as follows:



- 1) To examine the effect of the family aspects including family ownership concentration, family management, and family control of board on their financial performances of the family business companies listed on the SET and the MAI.
- 2) To examine the effect of the family aspects including family ownership concentration, family management, and family control of board on their corporate governance of the family business companies listed on the SET and the MAI.
- 3) To examine the effect of corporate governance on financial performances of the family business companies listed on the SET and MAI.
- 4) To examine mediating effect corporate governance on family aspects including family ownership concentration, family management, and family control of board towards their financial performances of the family business companies listed on the SET and the MAI.

Methodology

To analyze the effect of family aspects on corporate governance and firm performance for companies listed in the SET and MAI, the following methodology was employed:

Population and Sample Size

The sample size of this research is calculated by using Kline (2011) formula for sample size calculation for Structural Equation Modeling or SEM. The calculation suggested by Kline (2011) is presented as follows -

$$n = N \times q$$

Where:

n = sample size required

N = ratio of cases

q = number of variables in the model

As mentioned by Kline (2011) an ideal sample size to variables ratio would be 20:1, meaning that for every 1 variable, 20 samples are needed. The research uses a total of 5



variables (3 independent variables, namely family ownership concentration, family management, and family control of the board, and 2 dependent variables, namely, corporate governance and financial performances. Therefore, the calculation for minimum sample size required for the research to be relevant is $n=100$ as shown using the computation formula below:

$$\begin{aligned}n &= 20 * 5 \\ &= 100\end{aligned}$$

Data Collection

According to the calculation above, the author will be collecting secondary data from the minimum of 100 family business companies listed in the SET and the MAI, over five-year period from 2015-2019. Through pre-screening of data, there are total of 287 companies that fall into the definition of family business defined in this research, consisting of 231 companies found in SET and 56 companies found in MAI. The contribution of family business companies found SET has accounted for 80% (231 companies out of 287 companies) and the family business companies found in MAI has been accounted for 20% (56 companies out of 287 companies).

Data Analysis

Three indicators will be used to measure financial performance and one indicator will be used to measure corporate governance. Two of financial indicators are profitability ratios that assess “accounting performance” respectively ROA and ROE, while the third is a proxy of Tobin’s Q that measures value creation or “market performance”. The indicator to assess corporate governance is the Corporate Governance Score, assessed by the Thai Institute of Directors.

SEM with Amos 26.0 was used to analyze both direct and indirect relationships and dependency between family aspects including FOC, FM, and FCB. For measuring the independent variables of CG and FFP, researcher will be using the CG scores, ROA, ROE, and Tobin’s Q. Furthermore, the Fitness Indexes of the Model Fit Index will be used to evaluate the



data presented in the model. Finally, the moderation regression analysis was used to evaluate the moderator effect of control variables.

Research Findings

A total of eight hypothesis were tested in this research. Structural Equation Modeling (SEM), was used to examine both interrelationships and dependency among family aspects such as FOC, FM, and FCB and CG. The composite of CG points, ROA, ROE, and Tobin's Q was used to measure the independent variables of corporate governance and firm financial results.

The results of the harmonization with empirical data of the model are shown in the table below. The Relative Chi-Square (CMIN/DF) result is calculated at 1.155 which is below 3.00 value representing a good fit for the model (Hair et al., 2010).

Index	Criterion	Results
Relative Chi-Square (CMIN/DF)	< 3.00 (Hair et al., 2010)	1.155
Comparative Fit Index (CFI)	> 0.9 (Klein, 2011)	0.999
Goodness of Fit Index (GFI)	> 0.8 (Schumacker and Lomax, 2004)	0.995
Normalized Fit Index (NFI)	> 0.9 (Hair et al., 2010)	0.993
Relative Fit Index (RFI)	> 0.9 (Hair et al., 2010)	0.981
Tucker Lewis Index (TLI)	> 0.9 (Hair et al., 2010)	0.997



Incremental Fit Index (IFI)	> 0.9 (Hair et al., 2010)	0.999
Root Mean Square Error Approximation (RMSEA)	< 0.9 (Klein, 2011)	0.018

Table 1: Model Fit Index Results

On the model fit analysis, the research found that all indices analyzed (SMIN/DF, CFI, GFI, NFI, RFI, TLI, IFI, and RMSEA) were found to be harmonious therefore significant in the context of the present study.

The results of the data analysis of path coefficients analysis and the standard error of the SEM for impact analysis in the present research are shown in the Figure 1 and Table 2 below:

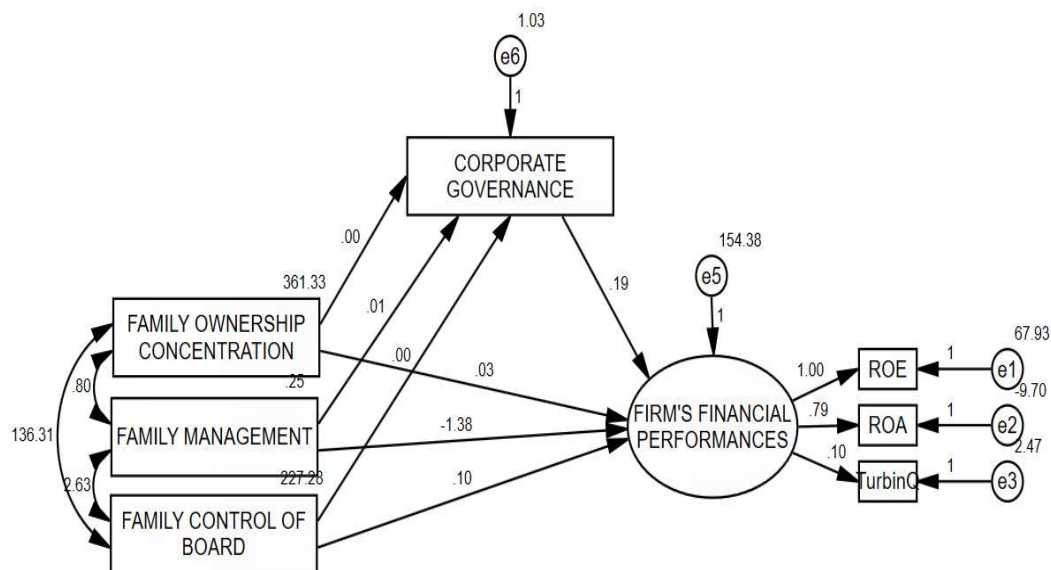


Figure 1: The results of hypothesis testing using the SEM method



Hypothesis	P Value
H1: Family Ownership Concentration towards Firm' Financial Performances	0.417
H2: Family Management towards Firm' Financial Performances	0.217
H3: Family Control of Board towards Firm' Financial Performances	0.013*
H4: Family Ownership Concentration towards Corporate Governance	0.367
H5: Family Management towards Corporate Governance	0.904
H6: Family Control of Board towards Corporate Governance	0.802
H7: Corporate Governance towards Firm' Financial Performances	0.703
H8: Family Ownership Concentration, Family Management Family Control of Board towards Firm' Financial Performances mediated by Corporate Governance	>0.05
H8a: Family Ownership Concentration Firm's towards Financial Performances mediated by Corporate Governance	>0.05
H8b: Family Management towards Firm' Financial Performances mediated by Corporate Governance	>0.05
H8c: Family Control of Board towards Firm' Financial Performances mediated by Corporate Governance	>0.05

*Significant at $p < 0.05$

Table 2: Hypothesis Testing Summary

Through The SEM path analysis results family ownership concentration and family management were found to have insignificant affect on firm's financial performances having P-value of 0.417 and 0.217, respectively. Family control of board was found to have a significant effect on firm's financial performances having P-value of 0.013. Regarding the effect of family aspects on corporate governance, all three aspects were found to have an insignificant effect on



corporate governance, having P value of FOC ($P=0.367$), FM ($P=0.904$), and FCB ($P=0.703$), which all higher than significant level at 0.05. CG portrayed no mediation affect between family aspects and firm's financial performances, having P value greater than 0.05.

This research has included three control variables, firm age, firm size, and leverage and monitors their moderation effect between all three family aspects and firm's financial performances. With respect to family ownership concentration, only firm age was found to have a moderating affect between FOC and Tobin's Q and ROA. For the measurement against ROA, R-squared was found to increase from 0.16 to 0.18 and for the measurement against Tobin Q, it was found to increase from 0.044 to 0.049. Looking at the Beta (B) coefficients For ROA, it was increased from 0.040 to 0.110, and for Tobin Q, it was increased from 0.002 to 0.026. With respect to family management, only firm age was found to have a moderating affect between FM and Tobin's Q and ROA. For Tobin Q, R squared value has increase from 0.050 to 0.061 and the Beta coefficient has increased from -0.312 to -1.694. For ROA, R squared value has increase from 0.011 to 0.27 and the Beta coefficient has increased from -0.737 to -8.609. With respect to family control of board, all three control variables have moderation effect. Firm age has moderation effect on ROA and Tobin Q. Firm size and leverage have moderation effect on ROA.

Discussion and Implications

The analysis shows that board traits such as board member compositions, especially when having larger number of family members in the board, have a favorable association with firm's financial performances. The study however comes in agreement with Sajid et al. (2012), who stated that consolidated ownership by shareholders and concentrated ownership by within block holders have little impact on results. The ROA was found to have significant impact on the family-own businesses performance for the companies analyzed in the present study. Tobin's Q, ROA, and ROE were used as proxies to assess results, and the variable family company was found to be positively and substantially linked to Tobin's Q and ROA. This result follows Amran and Ahmad's (2009) finding that Tobin's Q is a metric that better describes its success because it represents business performance rather than accounting performance. Another explanation for Tobin's Q, in other words, the book value of the assets minus the book



value of equity and the market value of the equity, both divided by the book value of the assets, has excelled in this analysis is based on Hamberg et al. (2013) and Pukthuanthong et al. (2013), who argue that Tobin's Q is a future-oriented measure that aims to represent the market valuation of the assets. ROA and ROE, on the other hand, are thought to be profitability and efficiency indicators. As a consequence of these findings, it was discovered that family and non-family firms vary in terms of success and market valuation. Overall, the data observed does not have adequate findings for the other performance proxies (ROE), showing that evidence relating to family business efficiency is vulnerable to various performance settings, as approached by Vieira (2014). It is noted that family businesses vary from other companies mostly in terms of their value. According to Shyu (2011), owners of a family have more internal knowledge and may forecast the company's future more quickly than other shareholders. This enables them to make more complex decisions on minimizing or growing their assets, which impacts the Company's profitability (Pukthuanthong et al., 2013). Furthermore, because of the business's long-term position in the industry, families can better understand the market as well as the Company (Pukthuanthong et al., 2013), ensuring more efficient management and promoting the increase of the family's income, and hence the Company's efficiency (Muttakin et al., 2018). The results showed that family and non-family businesses vary in importance in accounting efficiency, as determined by the ROA proxy. The variable "family businesses" was strongly and favorably linked to the performance metric. Thus, by using the ROA, family management favorably affected the company's results, which differed from what happened when ROE measured accounting output and market performance as measured by Tobin's Q. These factors did not present a connection with family companies. The organization's size was another influential element in the analyzed model, which affects the output of the researched study. At that effect, the scale of the organization means greater consistency in the utilization of assets by cyclical family companies, indicating a favorable interaction with the industry and accounting performances. These findings help us understand why family businesses are one of the most significant business growth models in Thailand and other ASEAN countries, as well as demonstrating a connection between the success of family and non-family businesses. As a result, a rise in family equity will lead to an increase in business success, indicating that the



family has a greater desire to maximize the company's performance for its income to be tied to it.

Family-owned companies are the bedrock of the economy in almost every nation. Family-owned enterprises have been rising firmly and steadily in Thailand, contributing over 28 trillion baht (72%) to overall market valuation. Over 50% of listed companies are family-owned or operated by families (Deloitte, 2020). As family businesses worldwide face dynamic obstacles and uncertainty such as trade barriers, cyber-attacks, and the cost of raw materials, professionalizing the company remains a top priority. This includes not just business and investment decisions but also ownership concerns and relationships among family members. Most family-owned businesses don't last more than one generation. According to Deloitte Private Studies, only one out of every three family enterprises succeeds in transitioning from one generation to the next. Lack of coordination and openness, failure to define the intent of the wealth, regularly concluding in the preceding generation maintaining power, inequality among family members, and failure to inform and plan wealth inheritors are the most popular issues that lead to family dissolution. Family tradition cannot progress without the faith of previous generations. It's time to recognize the importance that previous generations will bring to the table through learning from them. These family-owned companies may need to start cultivating a versatile, outward-facing approach that encourages them to follow various partnerships. This reflects a shift in mindset that many family business leaders recognize is essential.

Looking beyond the balance sheet and net worth, family firms add to society's long-term survival in Thailand. They instill good family traditions, foster loyalty, and contribute to the society. Philanthropy is at the heart of globally responsible family companies. They operate as role models for the groups they serve, and their ideals have a long-term influence on culture as a whole. In Thailand, family enterprises often generate a large number of employees. They must actively invest in human resources when adapting to new demands and handling market disruption. Since the local, regional, and foreign market environments are rapidly evolving, it is critical to remain one step ahead of the competition. The Thailand Market Survey, which is part of PwC's Global Family Business Survey (2021), aims to gain a better understanding of how



family companies work and their opportunities for growth in the future. It might explain how family businesses develop business plans and priorities, what obstacles they encounter, and how they adapt in order to succeed and prosper. Further research might be helpful to discuss the principles that family companies live by on a daily basis. Most specifically, to investigate succession planning and how family firms prepare their next wave of executives in the post COVID-19 years.

The present research on the effect of family aspects on corporate governance and firm performances has several practical implications. The results indicate that family control and interest in the Thai family business context may provide a competitive edge. The fundamental strength of Thai family companies is their less organized and kinship-based market style, and influential Thai cultural traditions affect how companies make decisions. Finally, Thai family businesses must be however mindful of the pitfalls of relying too heavily on management control practices. For instance, limiting top managerial positions to family members, can narrow opportunities and hinder success over time. On the other hand, the notion of kin may be extended by establishing trustworthy mutual relationships among non-family relations, thus growing the talent pool and fostering better stewardship habits among employees. In an ideal world, Thai family businesses will search for ways to balance the potential advantages of family ownership and engagement with the potential drawbacks. In this regard, it is recommended that family councils and offices be established as specific governance structures to control and track the family's actions in the business. The results have ramifications for Thai policymakers and consultants to family businesses. First, such individuals must be acutely aware that both formal and informal Thai environments play a significant role in influencing the behaviors and attitudes of Thai family businesses. According to the findings, Thai family businesses have embraced organizational frameworks and management strategies aligned with the country's weakened bureaucratic climate. As a result, policymakers and consultants to Thai family businesses should be wary of providing Western-based "best practices" guidance, as such advice could be incompatible with local institutional circumstances. Second, we recommend that advisers and policymakers collaborate closely with Thai family businesses to help position them for the changing demands of the Thai institutional environment. Consumers and policymakers in



Thailand, for example, are giving more attention to agriculture/food protection and efficiency. Responding to these changes necessitates market-driven tactics that propel firms to higher levels of success. Such strategies necessitate a strategic reorientation and a shift in perspective among Thai family business owners and managers.

The difference in values between generations is another important aspect impacting the performance of family-owned business in a long run. For instance, the baby boomers, who make up the majority of the preceding generation, are recognized for being strong employees and dedicated asset makers. Younger generations have grown up in a more affluent setting, confronted by an abundance of modern media, and are recognized for their attitude toward employment, which is that work is more than just a way of subsistence; it is a representation of themselves. Individual fulfillment is essential to the young generation, and they want to create their own mark. They are creative and want to ensure that the society is led by people who are motivated by a sense of mission. They do this by emphasizing ongoing career growth and placing a premium on partnerships over allegiance.

They still have a stronger sense of culture and want businesses to do the same. They agree that a company's effectiveness can be calculated not just in terms of its financial efficiency, but also in terms of its ability to create a difference in society. The difficulty becomes finding a compromise between their ability to contribute back to the society and their desire to protect their families or company assets. As we will tell from the above, multiple generations have different characteristics. As they will be operating together as family-owned companies, the challenge will be to overcome these differences whilst still leaving a legacy. A multi-generational solution could be the way to go.

In today's faster and radically different market world, a multi-generational solution is critical to equity and legacy transformation. The best of your family's complex generational ideals should be explored and appreciated through the lens of difference and leadership, and is underpinned by the fundamentals of engagement, accountability, schooling, and preparation. This is critical for bridging generational divides and leaving a legacy, not just in terms of income and succession, but also in terms of embedding the characters of stable, well-thought-out



transformations that nourish families and enterprises for the long haul. Flexible leadership that maximizes the efficacy of technologies and creativity while requiring relationship-based leadership to achieve results. Generations of stable communities benefit from one another and incorporate the strongest characteristics of both races. Most critically, family companies must understand how their business model will function efficiently in an evolving business ecosystem while maintaining the family's legacy and traditions. It would be exciting to see how the coming year puts family companies to the test in terms of navigating new obstacles. Family firms who can adapt their community and corporate processes to capitalize on the same benefits would have a benefit.

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